VZCZCXRO2599 RR RUEHROV DE RUEHAE #0037/01 0281123 ZNR UUUUU ZZH R 281123Z JAN 08 FM AMEMBASSY ASMARA TO RUEHC/SECSTATE WASHDC 9402 INFO RUCNIAD/IGAD COLLECTIVE RUEHLO/AMEMBASSY LONDON 1582 RUEHFR/AMEMBASSY PARIS 1760 RHMFISS/CDR USCENTCOM MACDILL AFB FL RUEAIIA/CIA WASHDC RUEPADJ/CJTF-HOA J2X CAMP LEMONIER DJ RUEKDIA/DIA WASHDC RUMICEA/JICCENT MACDILL AFB FL RHEHNSC/NSC WASHDC RUEKJCS/SECDEF WASHDC

UNCLAS SECTION 01 OF 02 ASMARA 000037

SIPDIS

LONDON AND PARIS FOR AFRICA WATCHERS DEPT FOR AF/E AND INR

SIPDIS

E.O. 12958: N/A

TAGS: <u>ECON</u> <u>EINV</u> <u>ETRD</u> <u>ER</u> SUBJECT: Massawa Free Zone

Ref: 07 Asmara 000683

11. Summary: On January 9, Ambassador and Poloff toured the future Massawa Free Zone with Issayas Ghebregziabiher, Eritrean Free Zone Area Coordinator. Recent building activity was evident although Issayas cited slow progress in building the necessary infrastructure to allow companies to begin operations. Fourteen international companies have completed the license application process, with another six in process. Pending completion of the infrastructure projects, Issayas envisions the Free Zone will become operational in 12008. End Summary.

CURRENT CONDITIONS

12. On January 9, Ambassador and Poloff toured the site for Massawa's long-planned future Free Zone, located on an old Eritrean naval base north of the city. Evidence of new construction included five newly completed small warehouse complexes, each consisting of two or three warehouses of varying sizes, and a number of newly poured concrete pads for additional facilities. Nonetheless, Issayas noted that progress has been slow. Existing roads are visibly in need of upgrades. Access to the Zone consists of a single circuitous, two-lane road through the center of Massawa city. Inside the zone, the roads are in medium-to-poor condition and mostly unpaved.

INFRASTRUCTURE CHALLENGES

13. Issayas noted that other infrastructure deficiencies, i.e., lack of water, inadequate telecommunication services, and electricity availability, still must be addressed before the Zone can become operational. Planned infrastructure upgrades include construction of two electrical substations and a generator to supplement the city-provided electricity. He added that Eritrea's telephone company, Eritel, has invested heavily in state-of-the-art telecommunications technology for the Zone through (unnamed) Chinese companies. The Zone Authority has also slated a currently derelict jetty for renovation to provide docks and a fuel depot separate from the existing port facility. In addition, a dam is being built nearby to contain the summer runoff from the escarpment and provide necessary water. The Government of the State of Eritrea (GSE) also plans to construct a conference center and display area, as well as office space for insurance and credit card processing services and customer call centers.

- $\P 4$. Fourteen companies from Italy, Germany, Israel, and the Arab states have completed the licensing process, but will not be allowed to start operating until the completion of the infrastructure upgrades. Issayas noted that six more international companies are in the process of applying for licenses. Issayas anticipates the Zone will be used in the immediate term almost exclusively for trading of goods between foreign entities, but at least two of the first fourteen companies will be manufacturing products: one making PVC pipes, the other an Israeli-owned textile factory. He noted that one American company, Cargil, has expressed tentative interest in processing grains within the Zone. Issayas noted that Zone incentives will include: 100% repatriation of profits, no taxes, unrestricted import of labor, and low rent charges for warehouse and office spaces. The GSE will benefit from converting wages and service payments from hard to local currency through the central bank, and the entire country will benefit from providing services to companies inside the Zone, increased employment opportunities, and technology transfers. Issayas noted the Zone will have an independent board of directors outside of ministry control (although he added this "independent" board will be chaired by the Minister of Finance).
- 15. Comment: The GSE's plans for establishment of a Free Zone appear to be coming to fruition, albeit very slowly, after years of planning. Understanding that reliance on remittances from the diaspora for hard currency is not a viable long-term strategy, the GSE hopes the Free Zone will provide a more reliable and controllable revenue source. End Comment.

ASMARA 00000037 002 OF 002

MCMULLEN